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RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1665
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 04 HARARE 000982

SENSITIVE
SIPDIS

AF/S FOR B. WALCH
AF/EPS FOR ANN BREITER
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
TREASURY FOR D. PETERS
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: N/A
TAGS: [ECON](#) [PGOV](#) [ASEC](#) [PHUM](#) [EAID](#) [ZI](#)
SUBJECT: BARELY COPING IN ZIMBABWE,S ECONOMIC MELTDOWN

REF: A. HARARE 904
[1](#)B. 07 HARARE 504

SUMMARY

[1](#)1. (SBU) Zimbabweans are coping under hyperinflation and in the face of a near worthless currency by tightening their belts, relying on food aid, seeking informal work opportunities within the distortions and contradictions of the economy, and through emigration and remittances. Over 4/5 of all jobs in Zimbabwe are now in the informal economy, where people scratch out a generally meager income under poor working conditions. Informal trading in food, goods, and foreign exchange is on the rise, but formal employment as well, especially at the low end of the pay scale, often offers the opportunity to "make deals" on company time and get a free meal and other non-cash perks. Formal employment also presents opportunities to pilfer and, in some businesses, conclude shady deals for kickbacks. In this starkly deteriorating economic situation, the willingness to make ends meet by any means, legal, ethical, or not, is increasingly common. When things finally come right in Zimbabwe, a new reform-minded government will face the considerable challenge of overturning this woeful legacy of the waning years of the Mugabe regime and inculcating anew respect for the law. END SUMMARY.

Still "Making a Plan" - Belt Tightening

[1](#)2. (U) One and a half years ago we reported (Ref B) the ways

in which Zimbabweans' "make a plan" mentality was cushioning the population from economic freefall. Today variations of belt tightening, income augmentation, and external support are still the main coping mechanisms, but in a much harsher economic environment.

¶3. (SBU) Labor economist Godfrey Kanyenze, Director of the Labor and Economic Development Research Institute of Zimbabwe, described to us some of the austerity measures that people are imposing on themselves. Thousands of people in Harare's high-density outlying neighborhoods, for example, depart home on foot or, if they are lucky, by bicycle, for both formal and informal employment as early as 3 a.m. to save bus fare. The shortest commute by bus costs the equivalent of nearly USD 50 cents one way, which would consume an entire day's wage at the low end of the pay scale. Eating only one meal a day of traditional food (boiled maize meal and green vegetables, occasionally with beans) has become common in urban as well as rural areas. The macabre joke is to speak of being on the "0-0-1" diet, i.e. no breakfast, no lunch, only dinner.

¶4. (SBU) For rural households, the FAO Agriculture Coordination Working Group reported on September 25, 2008 coping by gardening, cross border trading, barter trading (but on worsening terms of trade for maize grain), vending, gold panning, providing casual labor that is compensated with maize grain or other cereals, and by selling small livestock. In a survey of nutrition carried out in July 2008, the local Food and Nutrition Council found that one third of households

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were eating only one or less meals per day. People in rural areas were increasingly subsisting on wild fruits, roots and caterpillars, which econoff observed during a visit to a mining area 50 km south of Zvishavane in Midlands province earlier this month. While there are certainly limits to the resiliency of the poorest segments of the rural and urban population, and Zimbabwe might be close to fully exploiting that resiliency, Kanyenze reminded econoff of the population's record of innovativeness in the face of extreme adversity. He recalled how during the war in the 1970s many Zimbabweans were forced to subsist for years in "protected villages."

¶5. (U) A further critical coping mechanism for the destitute is humanitarian assistance in the form of food aid. We estimated (Ref A) that about 50 percent of the population of Zimbabwe will receive food aid over the next eight months.

Income Augmentation - The Growing Informal Economy

¶6. (SBU) Kanyenze commented that the economy's very distortions and contradictions also created new survival opportunities, primarily in informal employment. He referred to two ILO issues papers (Nrs. 32 and 33) on employment in Zimbabwe published this year that found that just over 4/5 of all jobs in Zimbabwe were in the informal economy. The jobs, in general, provided extremely low cash income and poor working conditions, and did not offer adequate social protection. Consistent with the fact that over half of Zimbabwe's population lives in rural areas, the ILO found that about 78 percent of informal workers toiled in agriculture.

¶7. (SBU) Along with the spike, especially in urban areas, in the number of informal vendors who, for example, sit patiently along a roadside behind a small pyramid of tomatoes or a bottle of cooking oil, or exchange money in downtown Harare, the formally employed generally also work informally while on the job, or moonlight in second jobs. A crucial factor in staying at a poorly paid job is often the access it affords to a functioning telephone or to internet access at company expense, and the wide circle of contacts to whom to

sell and barter goods during the work day. John Battershell of Cargill Cotton Zimbabwe told us despairingly that most of his staff in Harare spent more time managing personal business than working for Cargill.

¶8. (SBU) Albert Katsande, Chief Operating Officer of the OK Zimbabwe supermarket chain, told us the only reason his company's lowest paid workers showed up for work was the perks of the job and the opportunity to "make deals." For example, OK served its employees a free meal, which was generally their main or only meal of the day. It also allowed staff to buy 10kg of sugar a month on credit, which they "spun and burned" (as in burning CDs) into more worth through sale and barter, often during work hours. They repaid the debt in deeply depreciated Zimbabwe dollars. Katsande said that highly tradable goods, such as diapers and cigarettes, were the first products to disappear off the supermarket shelves, bought by employees, only to be resold on the black market. Such trade was also a means of gaining foreign exchange to pay residential rents, nearly all of

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which, in both high- and low-density neighborhoods of Harare, are now payable solely in hard currency. Rent for a single room in a high-density area of Harare ranges between R100 and R200 (roughly US\$10-20).

¶9. (SBU) Many employers top up the minimum wage with food packs. Shepherd Chinyerere, a manager at Southern Roses, Zimbabwe's largest rose exporter, told econoff that the company paid laborers less than the equivalent of US\$1/day but gave them free on-site accommodation, free transport into the city, and monthly packs of food staples.

Survival Trumps Scruples

¶10. (SBU) Kanyenze added that crime, ranging from petty to hard core, had become another survival tactic. Formal employment, for example, offered a worker the opportunity to pilfer. At the high-income end, Edgar Nyamupingidza, Head of Group Risk at Kingdom Financial Holdings Ltd, told us that controlling white-collar crime at the bank had become an unprecedented challenge in the face of contracting real salaries. Pressure on professional staff to support large extended families was immense and driving more and more employees to undertake shady bank deals for kickbacks. Spar Marketing Director Andy Holderness told us how friendly bank contacts could provide certain favored corporate and private customers with deeply negative short-term loans on days when the bank ended in surplus and faced the alternative of having the surplus locked away at zero percent interest for 90 days.

With the right bank contact, and using one's home as collateral, one could earn thousands of U.S. dollars in a cycle of short-term borrowing, exchanging for forex, and repaying in depreciated local currency.

¶11. (SBU) To preserve value, Zimbabweans quickly exchange their local earnings for food, goods or tradable assets, or for foreign currency cash as a reliable store of wealth. The local stock exchange, which has risen several hundred trillion percent this year, serves, for now at least, as another income preserving inflation hedge, especially in light of the low cash withdrawal limit. Further illustrating the innovative bend of Zimbabweans in coping with hyperinflation, CABS CEO Kevin Terry explained to econoff how depositors had been exploiting the immense difference between the foreign exchange rate for cash and for electronic transfers (RTGS). When Terry explained the scheme to us on October 6, the cash rate was Z\$4,500 and the RTGS rate was Z\$1.2 million:USD, presenting a huge arbitrage opportunity.

¶12. (SBU) A further scheme making the rounds as a way to bypass the strict daily cash withdrawal limit of less than US\$1 equivalent is to get certified by a medical doctor as

having a serious ailment that requires an urgent and expensive prescription, and then apply to the Reserve Bank for approval to withdrawal enough cash to pay for the prescription. Why a physician might be persuaded to certify a fake illness became clear when a government-employed obstetrian-gynecologist shared with us her October pay stub showing a take home pay of Z\$76,000*the equivalent today of about US\$1.50. Kanyenze commented that in Zimbabwe "corruption out of greed" had evolved into "corruption out of need."

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Emigration and the Lifeline of Remittances

¶13. (SBU) Emigration has been a further coping mechanism and social safety valve throughout the last decade of economic decline and political turmoil. The last census of 2002 put the population at 11.6 million, but some observers estimate that it could be as low as 8 million today, primarily due to emigration. Kanyenze said that the ensuing flow of remittances from emigrants was crucial to sustaining households. Echoing Nyamupingidza's observation of the pressure on the gainfully employed, he said it was a crime in Zimbabwe culture not to support one's extended family, whether as one of the lucky few to earn a fair salary in country or from the Diaspora. It is widely thought that about half the households in Zimbabwe have direct access to remittances. The supermarket chains are taking a close look at the extent of foreign currency in circulation in Zimbabwe as they judge the foreign exchange spending power of their customers and consider how many outlets to dollarize (for a steep forex fee). Against that background, Katsande estimated that Zimbabweans in South Africa sent home R300-500/month (roughly US\$30-50), or, from the U.K., the U.S. dollar equivalent of about Sterling 50/month (approx US\$78). In his view, the preponderance of small notes changing hands indicated that remittances averaged less than US\$100/month per transfer.

COMMENT

¶14. (SBU) As the ILO studies indicate, as the economy tips from formal to informal, the vast majority of Zimbabweans may have "made a plan," but the living that this docile population is eking out is increasingly miserable. What alarms us particularly in comparing today's coping mechanisms with those that we reported 1 1/2 years ago, is Zimbabweans' growing disdain for the law. From the low-level criminality of Kanyenze's "corruption out of need," to the "corruption out of greed" looting at the top of the pyramid, unscrupulous behavior pervades this previously remarkably law-abiding society. A new reform-minded government will face the challenge of turning the clock back on this particularly lamentable aspect of the Mugabe legacy and inculcating anew respect for the law.

MCCEE